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OCT 16

MEMORANDUM FOR: Deputy Director (Support)

SUBJECT: Contract Activities

1. The fact that the negotiation, administration, and termination of contracts are highly specialized, complex and diversified activities, requires no emphasis.

2. Moreover, centralized administration of contracting has been accepted as a management principle in this Agency in order to:

a. Assure that funds will be spent on a sound business basis (present Agency contracts total [REDACTED])

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b. Assure the uniform application of laws, regulations, and policies to all Agency contracts.

c. Maintain security.

d. Avoid duplication of effort.

3. These four objectives of centralized control must be emphasized because:

a. There is a natural tendency on the part of individuals, particularly in research, to become overzealous, and to permit enthusiasm for a project rather than prudent judgment to govern decisions in the expenditure of funds. Without being obstructionists, the contract specialists, as members of a centralized support team, can provide guidance and assistance to assure that adequate attention is given to the Agency's business responsibilities as expected of us by the tax payers and the Congress.

b. During the past year, members of Congress have voiced sharp criticism of certain government contracting methods. New legislation is pending to curb negotiated contracting as opposed to advertised bids, and to protect the interest of small business. This requires special care and discretion on our part to avoid criticism. This is but one of many reasons why the present system of centralized administration of Agency contracting should be retained.

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c. A recent security compromise involving publicity relative to an Agency contract resulted in a directive from the DDCI to establish additional security safeguards to avoid a re-occurrence. Centralized administration of Agency contract activities is essential in order to carry out these improvements.

d. The importance of avoiding duplication of effort is apparent when the breadth and scope of our contract activities is considered. These include:

**Research and Development**

Develop new sources, conduct precontract negotiations.

Interpret and evaluate plant's physical facilities, manpower, and financial resources.

Negotiate new contracts.

**Contract Administration**

Instruct contractors in administrative requirements.

Maintain extensive follow-up files and control records.

Expedite payments to contractors.

Maintain inventory and control government-owned property.

**Inspection**

Conduct on-site inspections to include all conditions affecting the Agency's interest.

**Termination and Settlement**

Negotiate settlements, arbitrate disputes.

4. The Agency has come a long way from the confusion, duplication and waste that resulted from the decentralized support activities in the early days. Through a long struggle and evolutionary process, we have progressed to our present stage where we are beginning to achieve effective business management overall. The proposed transfer of the TSS contract activities would mean the establishment of two separate systems of procurement in the Agency. Duplication of effort would be inevitable.

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This duplication would be compounded because it would involve not only duplicate headquarters functions, but duplicate activities in the field, including relations with private contractors and the Department of Defense.

5. Based on over a centuries experience, the military departments have come to the conclusion that centralization is essential to the most economical and effective procurement. Congress has underscored this and, as you know, has in fact demanded that the Department of Defense further centralize and streamline its contracting and other procurement functions. This Agency is clearly in step with this concept. I strongly recommend that we continue along present lines.

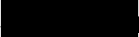
  
Acting Director of Logistics

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